Potential Effects of Regional Comprehensive Economic Partnership (RCEP) on the Philippine Economy*

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Regional Trade Research

- Trans-Pacific Partnership (TPP)
- Regional Comprehensive Economic Partnership (RCEP)
- Transatlantic Trade and Investment Partnership (TTIP)
- Labor Mobility within the ASEAN Economic Community (AEC)

Background - RCEP

- November 2012 – initial launch of RCEP negotiations
- RCEP recognizes ASEAN’s centrality (<u>ASEAN “+6”</u>)
- RCEP: 3.4 billion people; total GDP US$ 21 trillion
- Items in the negotiation
    - Elimination of tariff and non-tariff barriers on goods and services
    - Facilitation of investment flows
    - Technical cooperation
    - Protection of intellectual property rights
    - Promotion of competition
    - Establishment of dispute settlement mechanism

Objective

- To estimate the potential effects of the reduction in RCEP tariffs and non-tariff barriers (NTBs)
  - RCEP members (ASEAN “+6”) and non-members
  - Detailed Philippine effects
    - Sectoral output and commodity prices
    - Factor returns
    - Household income
    - Poverty and income distribution

Background data

RCEP GDP and Population

	2013 Population million	2013 GDP US$ billion*
ASEAN		
Brunei	0.4	16.1
Cambodia	15.0	15.2
Indonesia	248.8	868.3
Lao	6.7	10.6
Malaysia	29.9	312.4
Myanmar	61.6	80.7
Philippines	97.4	272.1
Singapore	5.4	297.9
Thailand	66.8	416.1
Vietnam	89.7	171.2
"+6"		
Australia	23.1	1,468.5
New Zealand	4.5	185.8
Japan	127.3	4,898.1
S. Korea	50.2	1,304.6
China	1,360.7	9,181.2
India	1,228.8	1,798.6
Total (ASEAN + 6)	3,416.4	21,297.5

Source: ADB Economic Indicators

*Local currency converted to US$ using ave. forex; 2012 for Myanmar

Philippine Trading Partners

Countries	M. Exports, 2010-2013 Average, US $mil.	Average Share,%
Japan	9,507	18.5
USA	7,474	14.5
European Union	6,363	12.4
China	6,178	12.0
Singapore	5,120	9.9
Hong Kong	4,308	8.4
South Korea	2,622	5.1
Thailand	2,018	3.9
Taiwan	1,872	3.6
Malaysia	1,203	2.3
Indonesia	680	1.3
Canada	451	0.9
Australia	485	0.9
New Zealand	44	0.1
Others	3,147	6.1
Total	51,470	100.0
% of GDP	22.9	
RP exports to RCEP, %		54.0

Countries	M. Imports, 2010-2013 Average, US $mil.	Average Share,%
USA	6,558	11.0
European Union	6,363	10.6
China	6,357	10.6
Japan	6,229	10.4
Singapore	4,680	7.8
Taiwan	4,405	7.4
South Korea	4,395	7.3
Thailand	3,544	5.9
Indonesia	2,558	4.3
Malaysia	2,487	4.2
Hong Kong	1,436	2.4
Australia	1,058	1.8
Canada	451	0.8
New Zealand	466	0.8
Others	8,863	14.8
Total	59,847	100.0
% of GDP	26.6	
RP imports from RCEP, %		53.1

Source: Bangko Sentral ng Pilipinas

<u>EU NET FDI</u>

2010	2111	2012	2013
-1,411	-292	369	61

Net FDI to the Philippines

	Total 2009-2013	Percent Distribution
Total	4,462	100.0
United States	1,073	24.0
Japan	1,823	40.9
European Union 25	-1,286	-28.8
ASEAN /1/	3	0.1
ANIEs /2/	1,375	30.8
South Korea	49	1.1
Hong Kong	1,292	29.0
Taiwan	34	0.8
Others	1,473	33.0

/1/ Association of South East Asian Nations

/2/ Asian Newly Industrializing Economies

Source: Bangk Sentral ng Pilipinas

FDI Frontier

	2006	
	Actual FDI Stock	FDI Frontier
ASEAN	420,025	648,178
Brunei	9,861	15,312
Cambodia	2,954	3,481
Indonesia	19,056	178,794
Lao	856	1,686
Malaysia	53,575	73,067
Myanmar	5,005	6,378
Philippines	17,120	57,364
Singapore	210,089	210,521
Thailand	68,068	101,180
Vietnam	33,451	36,395

Source: Petri, Plummer, and Zhai (2011)

Method of Analysis

- Estimate non-tariff barriers (NTBs) using gravity-border effect model

- Simulate reduction in RCEP tariffs and NTBs using Global CGE model (GTAP 8 database)
  - determine trade creation and diversion effects in RCEP and non-RCEP

- Simulate changes in Philippine factor and commodity prices using poverty microsimulation (Family Income and Expenditure Survey)
  - determine poverty and distributional effects in the Philippines

Flow of Information from CGE to Microsimulation

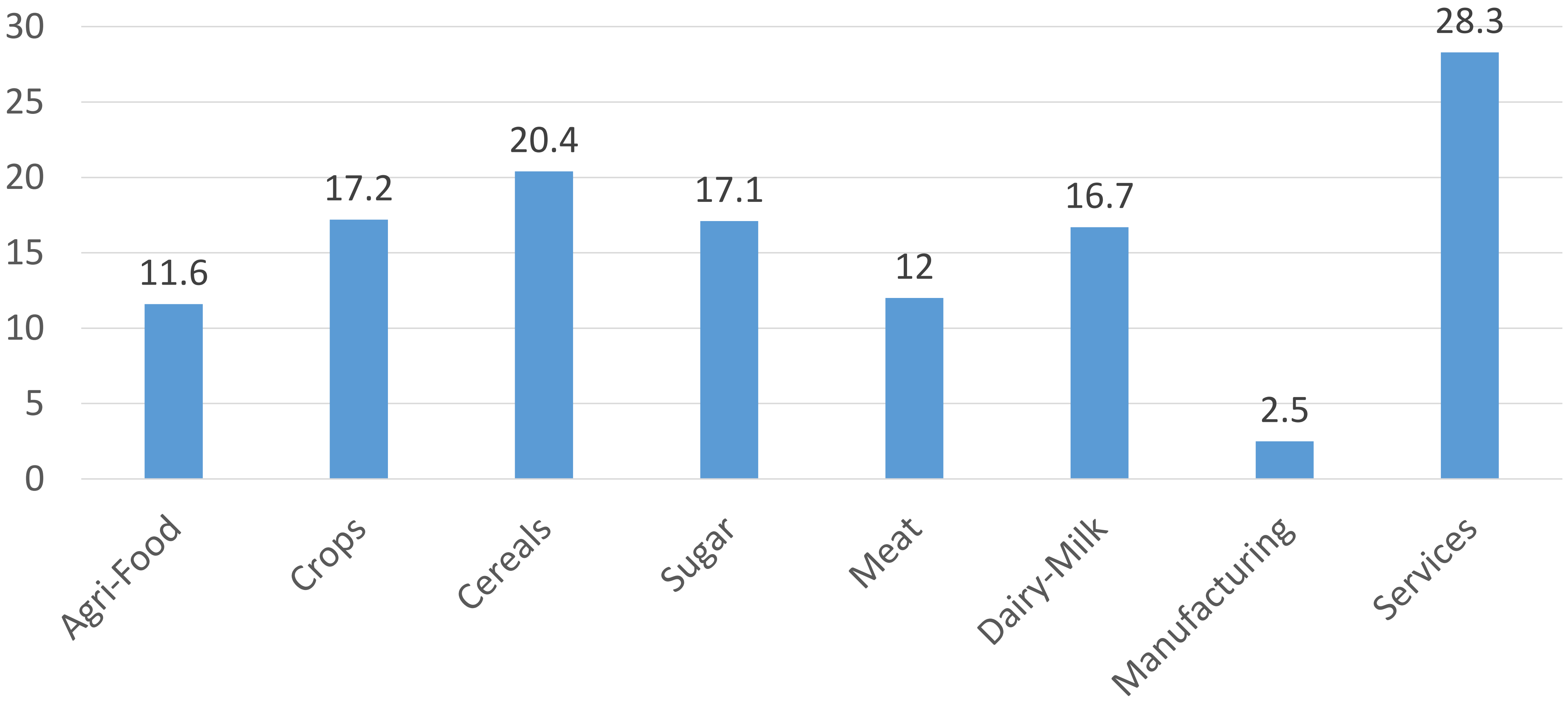
- ***<u>From</u>*** Global CGE (Philippine results)
  - Changes in factor prices
    - Wages of skilled and unskilled labor
    - Returns to capital
    - Land rent
  - Changes in commodity prices
- ***<u>To</u>*** 2012 Philippine social accounting matrix (SAM) to calculate
  - Changes in household income in decile
  - Changes in inflation at level of household decile
  - Movement of skilled and unskilled labor across sectors (agri/non-agri)
- ***<u>To</u>*** Poverty Microsimulation to compute
  - Changes in poverty indexes (P0=incidence; P1=gap; and P2=severity)
  - Changes GINI coefficient

Simple Average Applied Tariff Rates, %

	Agriculture and Food	Mining	Manufacturing
RCEP	18.5	4.2	6.8
ASEAN	9.1	4.4	7.2
"+6"	31.0	3.8	6.3
Rest of East Asia	3.6	1.8	2.1
North America Free Trade	7.4	1.3	3.4
European Union 25	13.3	1.1	2.6
Latin America	8.6	5	9.1
Africa	11.2	6.9	11.7
Rest of the world	10.8	4.7	6.6

Source: GTAP 8

Estimates of Average Ad Valorem Tariff Equivalent NTBs in RCEP, %



Simulations

- Model simulated for 10 years
- Baseline: 2014 -2023
  - World Bank GDP projections
  - United Nations population projections
  - A pre-solved multifactor productivity in each country/region to ensure model replicates exactly real per capita GDP in the baseline
- RCEP Scenario – <u>*change over 10 years*</u>
  - 90 percent reduction in applied tariffs in RCEP
  - 10 percent reduction in NTBs in RCEP region
  - US$2.4 billion increase in FDI in the Philippines

Simulation Results

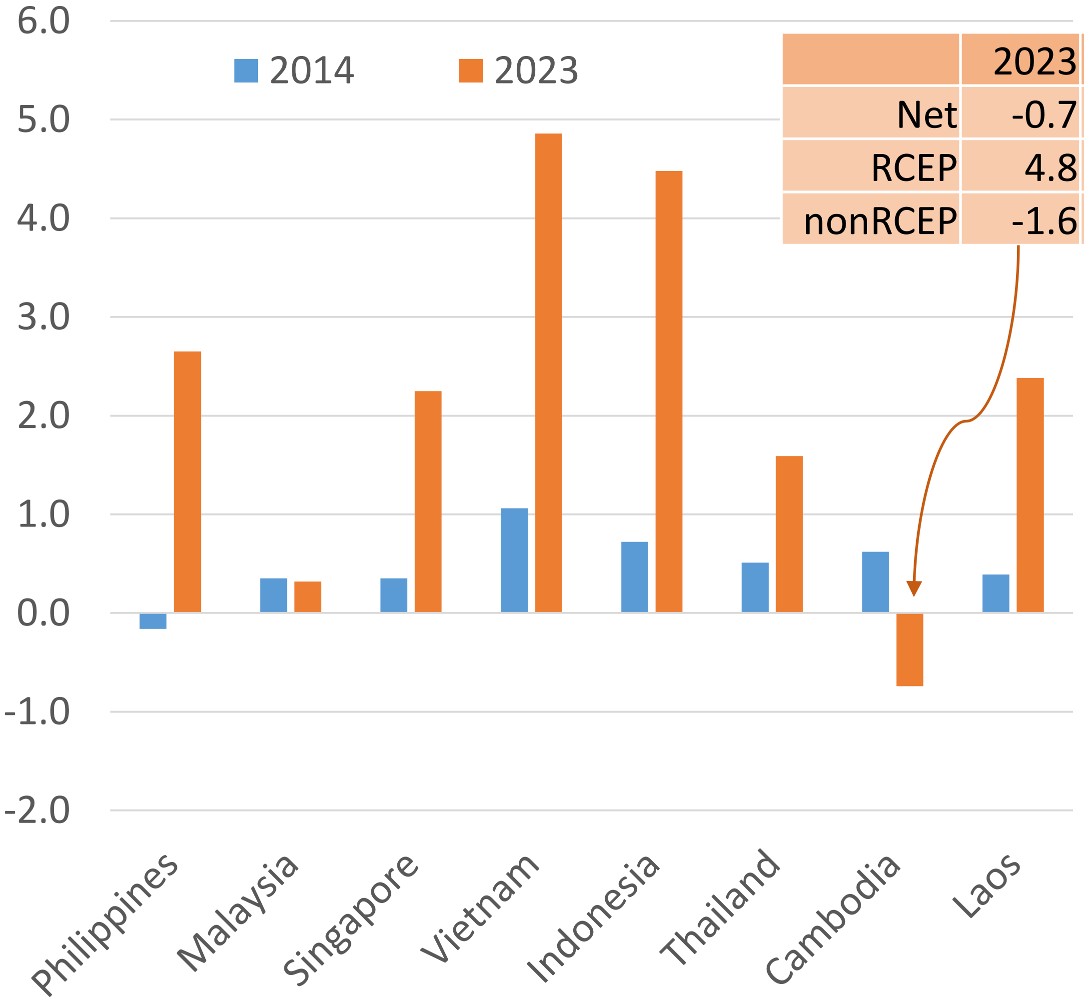
Regional effects, % change from the baseline

	2014	2018	2023
RCEP			
Total exports	0.60	2.28	3.31
To RCEP	1.87	6.97	9.89
To outside RCEP	-0.20	-0.74	-1.14
ASEAN			
Total exports	0.44	1.64	2.21
To RCEP	1.03	3.87	5.44
To outside RCEP	-0.20	-0.86	-1.73
"+6"			
Total exports	0.65	2.49	3.68
To RCEP	2.26	8.51	12.27
To outside RCEP	-0.20	-0.71	-1.00
Non-RCEP			
Total exports	-0.02	-0.09	-0.14
To RCEP	-0.26	-1.03	-1.53
To outside RCEP	0.02	0.10	0.18

Source: Author's calculations

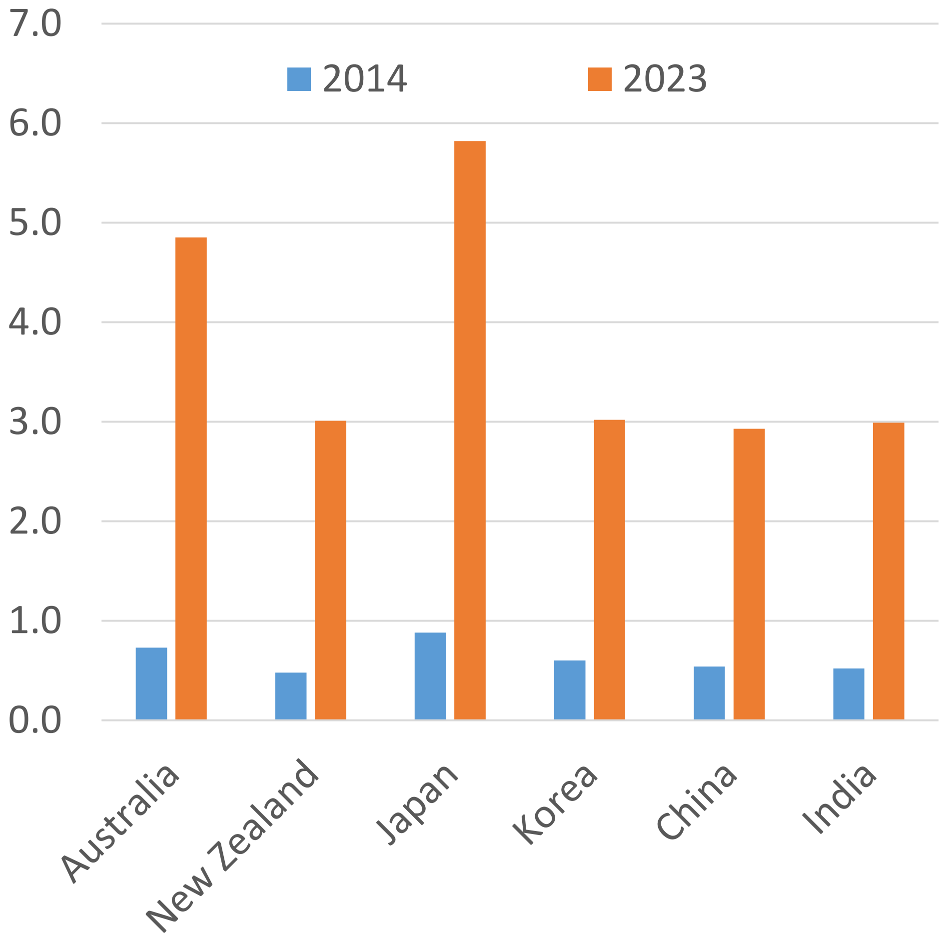
Change in RCEP Net Exports, % change from baseline

ASEAN



	2023	Share %
Net	-0.7	
RCEP	4.8	14.0
nonRCEP	-1.6	86.0

“+6”



Philippine Sectoral Output Effects, % change from the baseline

	2014	2023
Rice	-0.91	-4.26
Wheat and all other cereals	-0.07	0.45
Sugar	-0.22	1.13
Milk	-0.24	2.79
Oils fats	-0.42	0.57
Meat	0.14	2.44
All other agriculture	0.03	1.41
Mining	-0.23	4.30
All other food	0.07	3.18
Textile	-0.83	-1.28
Wearing apparel	-0.16	2.65
Petroleum and chemical prod.	-0.27	2.55
Source: Author's calculations		

	2014	2023
Metal products	-0.32	3.87
Transport and machinery equip.	0.04	7.17
Electronic equipment	-0.42	0.91
All other manufacturing	-0.33	2.36
Utilities	-0.01	3.38
Construction	2.13	11.21
Trade	0.04	3.46
Transportation	0.14	4.14
Communications	-0.02	3.43
Finance business services	-0.11	3.22
Other services	0.02	4.04
Public administration	0.01	0.72

Change in import volume	2014	2023
Rice	5.77	33.15
Textile	0.75	6.65
Change in consumption price		
Rice	-0.78	-4.11

Change in import price	2014	2023
Rice	-2.95	-14.07
Textile	-0.66	-2.02
Change in consumption price		
Textile	-0.43	-0.93

Rice Consumption in the Philippines

	2003	2009	2003	2009
	Poor		Non-Poor	
Total Food /a/	62.6	52.0	47.7	43.0
Cereals /b/	27.0	25.7	12.8	13.1
Rice /c/		22.5		11.3

Source: 2003 and 2009 FIES

/a/ Percent of total consumption

/b/ Includes rice and corn

/c/ 2009 FIES cereals were disaggregated into rice corn, and other cereal products

Factor Returns Effects in the Philippines
% change from baseline

	2014	2023
Skilled wages	0.88	3.88
Unskilled wages	0.95	3.80
Returns to capital	0.77	-0.74
Returns to land	0.60	5.69
Source: Author's calculations		

Real Household Income Effects in the Philippines
% change from baseline

Households (Decile)	2014	2023
H1	0.258	5.129
H2	0.125	4.333
H3	0.133	4.404
H4	0.125	4.355
H5	0.126	4.295
H6	0.121	4.273
H7	0.164	4.312
H8	0.183	4.372
H9	0.155	4.269
H10	0.101	4.329
Source: Author's calculations		

Poverty Effects in the Philippines

		End of Simulation Period: 2023	
	2012	Index	(%) Change from 2012
Philippines			
P0	24.85	23.29	-6.26
P1	6.84	6.26	-8.39
P2	2.68	2.42	-9.76
Urban			
P0	11.57	10.77	-6.94
P1	2.79	2.51	-10.01
P2	0.99	0.88	-11.4
Rural			
P0	35.58	33.42	-6.09
P1	10.1	9.29	-8.03
P2	4.04	3.66	-9.44

Source: Author's calculations. P0=Incidence; P1=Gap; P2 = Severity

Observations and Insights

- RCEP exports improve; non-RCEP exports decline
  - Growth: $Exports_{"+6"} > Exports_{ASEAN}$
  - Philippine export growth 3rd in ASEAN (after Vietnam and Indonesia)
- Philippine sectors grow, except rice and textile. High growth sectors: construction; transport & machinery equipment; services
- Higher imports of cheaper rice and textile to benefit Filipinos and garments sector
- Higher factor prices: wages and land rent. Favor lower income groups
- Commodity prices decline. Higher real household income, esp. low income groups
- Poverty indicators down; GINI coefficient decline
- RCEP generates US$4.5 billion additional welfare for Philippines in 10 years

Thank you!